

Message Text

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ACTION EA-10

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FM AMEMBASSY SEOUL

TO SECSTATE WASHDC PRIORITY 9401

INFO AMEMBASSY TOKYO

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EO 11652: N/A

TAGS: ETRD

SUBJECT: COUNTERVAILING DUTY CASE

TOKYO FOR REGIONAL CUSTOMS ATTACHE

REF: MAYHEW MEMO FOR THE FILES DTD 4/1/75

1. REF MEMO TO FILES BY PHILIP MAYHEW EA/K, COPY OF WHICH FURNISHED ECON COUNSELOR, INDICATES THAT U.S. DEPT OF TREASURY HAS DETERMINED THAT PREFERENTIAL FINANCING EXTENDED KOREAN EXPORTS OF RUBBER FOOTWEAR CONSTITUTES SUBSIDY AMOUNTING TO 0.6 PERCENT OF VALUE. MEMO FURTHER STATES THAT TREASURY HAS CONCLUDED IT HAS NO FLEXIBILITY UNDER TRADE ACT OF 1974 TO DECLARE SUM DE MINIMUS AND WILL SHORTLY PUBLISH PRELIMINARY FINDING THAT WILL INDICATE THAT, UNLESS KOREANS REMOVE SUBSIDY BY JANUARY 1, 1976, COUNTERVAILING DUTY OF 0.6 PERCENT WILL BE IMPOSED.

2. EMBASSY REALIZES THAT TREASURY CLOSELY BOUND BY PERTINENT STATUTES IN DISPOSING OF COUNTERVAILING DUTY CASES. HOWEVER IT IS OUR UNDERSTANDING THAT TREASURY HAS DISCRETIONARY AUTHORITY TO SUSPEND COUNTERVAILING DUTIES UP TO FOUR YEARS UNDER SEC 303 (D) (1) AND (2) OF TRADE ACT, IF NOTHING ELSE, IF DEPT CONCURS, IT MAY WISH BRING FOLLOWING

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FACTORS TO TREASURY ATTENTION:

(A) WE UNDERSTAND TREASURY'S DETERMINATION BASED ON DATA THROUGH 1973. US CUSTOMS REP FORM EMBASSY TOKYO NOW IN PROCESS OF OBTAINING 1974 DATA FROM KOREAN INDUSTRY. MARGIN BETWEEN PREFERENTIAL EXPORT RATES AND PRIME COMMERCIAL RATE OF 15.5 PERCENT HAS BEEN NARROWED SINCE 1973. RATES IN 1973 WERE 7, 9 AND 10 PERCENT. COMMON RATE OF 9 PERCENT PREVAILED IN 1974 AND RATE FOR ONE CATEGORY, FINANCING FOR IMPORTS OF RAW MATERIAL, WAS RAISED TO 12 PERCENT IN DECEMBER 1974.

(B) WHILE EXTENT TO WHICH SUCH FINANCING USED VARIES, ALL KOREAN EXPORT INDUSTRIES ENTITLED TO SIMILAR PREFERENTIAL RATES. TWO OTHER COUNTER-VAILING DUTY CASES, NON-RUBBER FOOTWEAR AND WOVEN FABRICS, CURRENTLY PENDING. (WE UNDERSTAND COMPLAINANT ON WOVEN FABRICS HAS TEMPORARILY WITHDRAWN COMPLAINT.) WHETHER ANYONE ELSE WOULD BOTH FILE COMPLAINT UNDER THESE CIRCUMSTANCES IS OPEN TO QUESTION, BUT PRIMA FACIE CASE THAT THERE IS SUBSIDY PRESUMABLY WOULD EXIST.

(C) OFFICIAL KOREAN POSITION IS THAT INTEREST RATE SUBSIDY IS NECESSARY TO MEET INTERNATIONAL COMPETITION. IT IS UNLIKELY COUNTERVAILING DUTIES OF THIS MAGNITUDE WOULD PROMPT ROKG TO ELIMINATE SUBSIDY.

(D) KOREAN VOLUNTARY RESTRAINT PROGRAM ON RUBBER FOOTWEAR EXPORTS EXPIRES THIS YEAR. HOPE THAT U.S.G. WOULD QUIETLY SHELVE COUNTERVAILING DUTY INVESTIGATION WAS FACTOR IN INFLUENCING ROKG TO INITIATE RESTRAINT PROGRAM. WHILE KOREANS REALIZE THAT POTENTIAL COUNTERVAILING DUTY IS NOT OF MAGNITUDE THAT THEY HAD ONCE FEARED, REVELATION OF JUST HOW SMALL DUTY WOULD ACTUALLY BE WILL ELIMINATE WHATEVER VALUE THREAT OF COUNTERVAILING DUTY STILL RETAINS AS BARGAINING PLOY, ASSUMING U.S.G. INTENDS SEEK EXTENSION OF RESTRAINT PROGRAM.
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